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PULP & PAPER

May 1985

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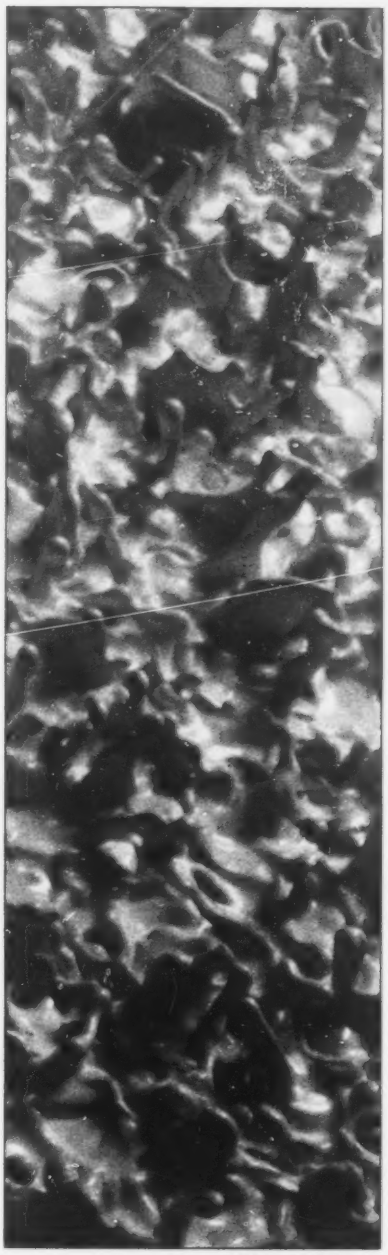

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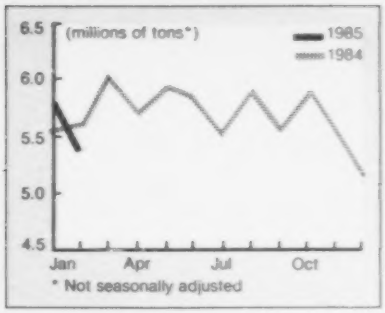
U.S. paper and board production



February production of paper and paperboard in the U.S. totaled 5.4 million tons, down 4.2% from February 1984, for an annual rate of 66.9 million tons, down 1.5% compared with last year, according to American Paper Institute data. Part of the 4.2% drop was due to an extra day last February because of the leap year, however. Paper production in February dropped 0.2% on an annualized basis, to 34.2 million tons, while paperboard production was off 2.8%, to 32.7 million tons. The two-month moving average of seasonally adjusted data for January and February showed a slight increase of 0.9% over last year's record pace, indicating that production is holding steady at high levels.

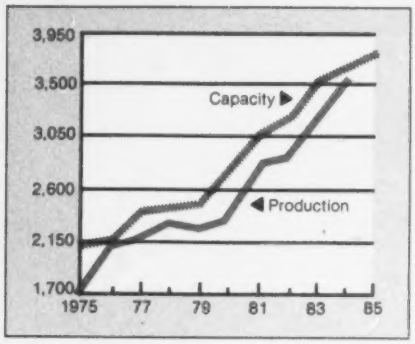
Among major grades, coated paper and tissue were the only grades up compared with last year. Coated paper rose 3.8% and tissue 1.9%. Groundwood papers, down 7.3%, and packaging grades, down 6.5%, suffered the sharpest drops, while newsprint and uncoated free sheet were flat. All of the paperboard grades were down 2% to 3%. Containerboard inventories in February dipped 2.4% compared with the previous month, reported the Fibre Box Assn.

Canadian newsprint shipments climbed 9.8% in February, to 709,000 metric tons, said the Canadian Pulp & Paper Assn. Operating rates continued very strong, reaching 97% in February, up from 96% the previous month.

	Latest month (000 short tons)		% change from year ago	Annualized year-to-date (000 short tons)	% change from year ago
PAPER & PAPERBOARD PRODUCTION[1]					
Newsprint	Feb.	447	−1.1	5,495	.5
Uncoated groundwood (s)	Feb.	119	−7.0	1,466	−7.3
Coated paper (s)	Feb.	498	−2.2	6,354	3.8
Uncoated free sheet (s)	Feb.	751	2.0	9,271	.4
Other printing/writing	Feb.	116	.9	1,411	3.3
Total packaging and other paper (s)	Feb.	434	−11.1	5,337	−6.5
Tissue	Feb.	397	3.1	4,882	1.9
Total paper	**Feb.**	**2,762**	**−1.8**	**34,216**	**−.2**
Unbleached kraft paperboard	Feb.	1,282	−8.3	16,125	−2.4
Semichemical medium	Feb.	400	−2.7	4,902	−2.8
Bleached paperboard	Feb.	319	−6.2	3,881	−2.2
Recycled paperboard	Feb.	611	−6.0	7,783	−3.1
Total paperboard	**Feb.**	**2,611**	**−6.7**	**32,691**	**−2.8**
Total U.S. paper and paperboard output	**Feb.**	**5,373**	**−4.2**	**66,907**	**−1.5**
PULP, WASTEPAPER & FIBER[2]					
Total U.S. woodpulp production	Jan.	4,595	1.7	55,139	2.1
Market pulp production	Jan.	579	9.0	6,949	5.0
Wastepaper consumption at paper/board mills	Jan.	1,321	2.2	15,857	2.3
Pulpwood consumption (cords)	Jan.	7,413	3.2	86,956	4.6
CONVERTED PRODUCTS STATISTICS[3]					
Corrugated box shipments (billion ft²)	Feb.	20.337	7.1	43.464†	−1.3
Containerboard inventories at U.S. box plants and mills	Feb. 1	2.894	−2.4		
INTERNATIONAL TRADE[2]					
U.S. paper imports (including products)	Jan.	896	4.2	10,749	4.2
Imports of Canadian newsprint	Jan.	634	−2.5	7,604†	−2.5
U.S. paper exports (including products)	Jan.	341	1.8	4,089	1.7
Exports of unbleached kraft linerboard	Feb.	117	−23.0	1,361	−25.9
Exports of woodpulp	Jan.	301	15.8	3,610	15.9
Norscan pulp inventories[4]	Feb. 28	1,882	6.2		
Norscan pulp operating rates[4]	Feb.	96%	90%	89%	96%
CANADIAN STATISTICS[5] *(reported in metric tons)*					
Total newsprint shipments	Feb.	709	9.8	1,448†	7.7
Operating rates	Feb.	97%	79%	97%	86%
Inventories held by U.S. consumers	Feb. 28	1,500	19.2		
Other paper/board shipments	Feb.	247	19.9	499	13.2
Woodpulp shipments (export only)	Feb.	487	2.3	1,010†	−3.5
Operating rates	Feb.	94%	89%	62%	77%

1. American Paper Institute. 2. API, Bureau of Census, American Pulpwood Assn. 3. Fiber Box Assn., Paperboard Packaging Council. 4. North American/Scandinavian paper-grade market pulp. 5. Canadian Pulp & Paper Assn. †Not annualized. ‡Not directly comparable to year ago because of coding change. (s) = shipments.

SUPPLY/DEMAND (000 tons)



FORECAST (000 tons)

	1983	1984	1985e
Production[1]	3,226	3,505	3,595
Capacity[2]	3,522	3,701	3,744
Utilization rate	91.6%	94.7%	96.0%
Imports	150	380	350
Exports	34	45	50
Apparent U.S. consumption	3,342	3,840	3,895
lb/capita	28.64	32.61	32.76
GNP ratio	2.17	2.35	2.31

1. P&P estimate.
2. API capacity survey.
e = Estimate.

TOP U.S. PRODUCERS (000 tpy)

	Annual capacity	Market share (%)
1. Champion	630	16.8
2. International Paper	450	12.0
3. Consolidated	385	10.3
4. Boise Cascade	306	8.2
5. Mead	300	8.0
6. Crown Zellerbach	300	8.0
7. Blandin Paper	280	7.5
8. Midtec Paper	200	5.3
9. Pentair Industries	180	4.8
10. Weyerhaeuser	175	4.7

Market share of top five companies:
55.3%

Market share of top ten companies:
85.6%

Total U.S. capacity (1985):
3.744 million short tons

COATED GROUNDWOOD PAPER: No slowdown in sight yet—this year looks promising

Grade structure:
Coated groundwood papers have a basestock made from furnish containing at least 10% mechanical pulp. The balance consists of chemical pulp and fillers. About 85% of U.S. coated groundwood falls into the No. 5 coated sector, representing the bottom of the coated paper quality spectrum, while the balance is considered to be No. 4 coated.

No. 4 has superior appearance characteristics, including a higher brightness rating, while No. 5 is valued for runability and lighter basis weight.

Most coated groundwood is made in the 32- to 50-lb range (25 x 38 in. in reams of 500), although some 30-lb paper is made and the group can run up to 70 lb. End-uses include magazines, Sunday supplements, catalogs, newspaper inserts, directories and other books, fliers and other commercial printing. In the case of lightweight coated (LWC) paper, coat weight may be up to 30% of total sheet weight.

Production/capacity:
Last year was a banner year for U.S. coated groundwood mills, with production rising 8.6% despite a 153% explosion of imports. Coated groundwood was considered to be in an extreme shortage situation all year long, although demand growth appeared to slow down toward the end of the year.

Almost no new capacity was expected to come onstream during this year, although American Paper Institute officials said at their annual Paper Week meeting in New York City in March that their capacity estimate for the year might have to be bumped up by 4% if production continues at levels comparable to those of early 1985.

Outlook:
Demand is expected to remain strong this year although not growing as rapidly as in recent years, when apparent consumption jumped by 31% (1982-84). Limited capacity availability will constrain growth somewhat, although the sponge capacity that API officials warned about could permit greater growth than that which is presently forecast. Slower economic growth is expected to produce more modest increases in paper consumption, however, and high import levels should drop off as the year goes on. Markets should be in rough balance between producers and consumers for most of the year, although extreme tightness could return late in the year if a recession is not looming at that time.

Prices:
Prices rose in January 1984, July 1984, and January 1985, but seem unlikely to go up again in 1985. Typical pricing trends ($/short ton for 34-lb roto paper, year-end except 1985, which is second quarter) are: 1973, $285; 1974, $400; 1975, $399; 1976, $460; 1977, $533; 1978, $582; 1979, $671; 1980, $735; 1981, $760; 1982, $760; 1983, $782; 1984, $890; 1985, $931. Offset prices average about $10/ton higher.

Markets:
About 62% of all No. 5 goes to magazine publishers and another 17% goes to commercial printers, with a further 16% being shipped directly to catalog and directory printers. Other end-uses include books. ■

(News section continues on page 23)

would disperse some of their bargaining clout. Employers, though, are not sure whether it is more beneficial to bargain as a group or separately. They have expressed interest in meeting with the unions to discuss the options. PPIRB chairman and CEO Don Saunders said the industry will welcome the input of the two pulp and paper unions in considering future approaches to bargaining.

In its de-accreditation decision, the labor relations board said "the trade unions have described a number of serious potential results touching industrial stability and the process of collective bargaining in the industry which may flow from the de-accreditation of the bureau."

"The fact that negotiations of an acceptable substitute may fail is not sufficient ground to deny the bureau's application for cancellation of the accreditation," the board said. ■

Electrical workers reject James River offer

Negotiations at James River Corp.'s Halsey, Ore., mill broke down because the International Brotherhood of Electrical Workers voted to reject the most recent offer. United Paperworkers International Union employees at the mill had earlier ratified a three-year contract that followed the regional 0%/4%/4.5% pay hikes to occur over three years. No new meetings were scheduled, but the mill continues to operate.

• A new three-year contract containing no base wage increases was ratified by the Retail, Wholesale, & Department Store Workers Union at **Buckeye Cellulose Corp.**'s Memphis, Tenn., mill. Instead, workers each receive a $500 lump-sum payment in each of three years, with the contract expiring Mar. 8, 1988. In addition, workers each get a $500 bonus in the first year for quick action on a new agreement.

• Meanwhile, **Niagara of Wisconsin Paper Corp.** negotiated a two-year contract with members of the UPIU and office workers at the Niagara, Wis., mill. The agreement calls for pay hikes of 5.5%/5% over two years. The new contract will expire on Jan. 31, 1987. ■

Labor conflicts heat up in wood products mills

International Woodworkers of America struck four Weyerhaeuser Co. wood products plants in the U.S. South in late March, following rejection of a three-year contract offer that would have frozen wages for the first year and given each worker a $500 cash payment instead (*P&P*, Apr., p. 41). Plants on strike are Wright City, Okla.; and DeQueen, Mountain Pine, and Dierks, Ark.

In the Pacific Northwest, where Weyerhaeuser has asked wood products workers to accept pay and benefit cuts, officials of both the IWA and the Lumber Production & Industrial Workers union said their members oppose the idea.

At their annual meeting in March, LPIW delegates voted to "ride out the contract," said Jim Bledsoe, executive secretary of the union. Timber industry executives have "an attitude that there is an opportunity to roll back the clock, and the thrust of this convention was to prevent just that," he added.

"Economic blackmail by billion-dollar employers" is how IWA western regional president, Vernon "Red" Russell, described the Weyerhaeuser request. "We will not roll over in the face of blackmail. We will not reopen our contracts," he said after an IWA policy board meeting. Weyerhaeuser was "disappointed" at news of the IWA position, said Lee Bjorklund, company communications aid. ■

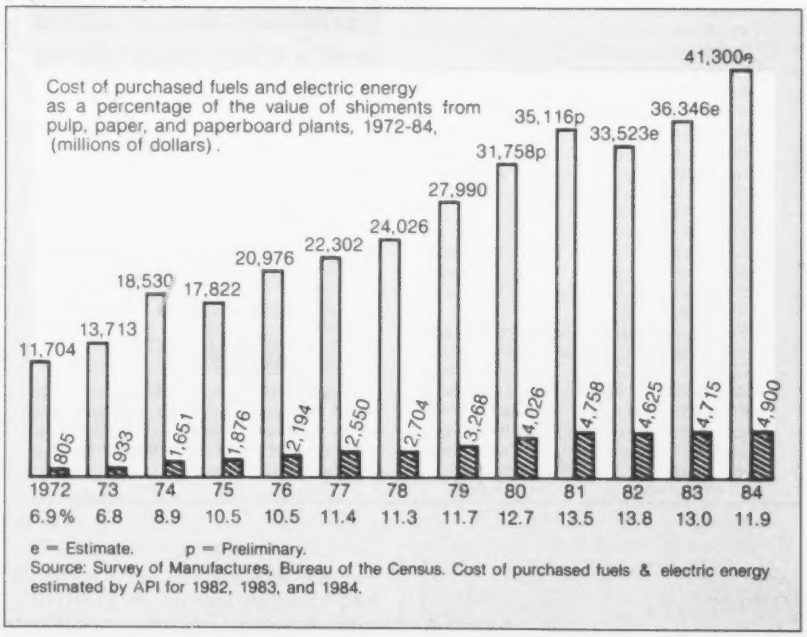
ENERGY

U.S. mills generated 55% of their energy in '84

The U.S. paper industry increased its use of self-generated and residue sources of energy from 40.8% of total energy used in 1972 to 55.2% in 1984, according to the American Paper Institute. This resulted in saving the annual equivalent of about 198 million barrels of oil, or about 44 days of current U.S. oil imports.

The industry since 1972 has also reduced its total oil consumption by 61%, its natural gas consumption by 20%, and total consumption of fossil fuels and purchased energy by nearly

The cost of purchased fuels and electric energy as a percentage of pulp, paper, and paperboard shipments has declined since 1982.



e = Estimate. p = Preliminary.
Source: Survey of Manufactures, Bureau of the Census. Cost of purchased fuels & electric energy estimated by API for 1982, 1983, and 1984.

16%. These reductions in total energy use were made despite a 32% increase in total pulp, paper, and paperboard output over the 12-year period. Average use of fossil fuels and purchased energy/ton of output declined 40% to 12.2 million Btus/ton in 1984 from 19.2 million in 1972, according to API's Energy & Materials Dept.

Based on the 1981 Census of Manufacturers, API has estimated that the industry's cost of purchased fuels and electric energy as a percentage of the value of its pulp, paper, and paperboard shipments rose from 6.9% in 1972 to 13.8% in 1982. It fell to 13.0% in 1983, and decreased further to 11.9% last year.

Some recent studies show that the pulp and paper industry is the leader in self-generation and cogeneration of electric power, accounting for about 50% of all cogeneration in the nation. About 37% of the industry's own electricity demand is cogenerated—an annual fuel savings equal to 22 million barrels of oil. ■

RECYCLED BOARD

Two recycling mills sold; Lawrence still reorganizing

Two recycled boxboard mills in the Northeast were sold in March, while a third recycled board company was scheduled to file a reorganization plan in April.

International Paper Co. completed the acquisition of Durham Mills Inc.'s 375-tpd recycled boxboard mill in Riegelsville, Pa., effective Mar. 7, for an unknown amount. The company said it did not know when the mill would resume operating. It has been shut down since June 1983. Some improvements are planned, but no details have been released.

New York wastepaper dealer **V. Ponte & Sons Inc.** will buy **Whippany Paper Board Co. Inc.**'s Clifton, N.J., 350-tpd recycled boxboard mill, subject to obtaining the necessary state and local operating permits.

A Whippany spokesman expects the sale to be closed within six months. Local officials are supportive of the mill's reopening, he said. Ponte could not be reached for comment.

With the sale of the Clifton mill, Whippany has only one asset—the Eden 1,000-tpd recycled paperboard mill in Whippany, N.J.—in the way of its Chapter 13 liquidation. Once that is sold, the company will be dissolved and any profits distributed to its stockholders. The company's creditors were all paid off at 29 cents/dollar in August of 1982, according to the spokesman.

• **Lawrence Paperboard Corp.** and its Harriman Paperboard Corp. and Lawrence Packaging Corp. subsidiaries are optimistic that a plan for reorganization to be filed with the U.S. Bankruptcy Court for the district of Massachusetts will satisfy its creditors, a company executive said. Lawrence filed Chapter 11 in March 1984 and was to file its reorganization plan in last month. ■

WOOD PRODUCTS

U.S. agency to reconsider Canadian lumber imports

Imports of Canadian lumber will get a second look from the U.S. International Trade Commission. The ITC accepted Reagan administration trade specialist William Brock's request to study the impact these imports have on U.S. producers. The ITC report is due July 8.

Congress is going ahead with its own solution to the problem. On Mar. 20, the House Interior Committee approved HR 1088, a bill which would limit Canadian imports to 20% to 25% of U.S. lumber sales (*P&P*, Apr., p. 39). This is the "historic average" level established during the 1970s before imports surged to claim about 30% of the market. And Rep. Don Bonker (D-Wash.) has introduced a bill which aims to speed up talks between the U.S. and Canada on the softwood trade issue. It would also offer incentives for Canada to voluntarily restrain lumber exports to the U.S.

Two years ago, a group of U.S. lumber producers claimed that Canada's stumpage policies are a subsidy for the lumber industry and asked for a tariff to counter the subsidy. But the ITC ruled then that Canada was not subsidizing its lumber industry and that the U.S. should not impose duties on lumber, which continues to enter the U.S. duty free.

Bonker, who is chairman of the House Foreign Affairs Subcommittee on International Economic Policy & Trade, said he would prefer a bilateral agreement to limit lumber imports to quotas, tariffs, or other U.S. actions. Bonker's bill would allow Canada and the U.S. to talk for a year in order to reach "a voluntary restraint agreement limiting imports of Canadian lumber, ending Canadian stumpage subsidies, and eliminating tariff and nontariff barriers to wood product trade on both sides." His bill would require the President to establish or raise tariffs on Canadian lumber, plywood, and other wood products. The bill would also change the definition of "subsidy" in the Trade Act to include government stumpage policies.

Scott Shotwell, vice president-congressional relations of the National Forest Products Assn., noted that lumber prices are so low in the U.S. that few wood products firms are showing profits. Canadian lumber is blamed for depressing prices despite strong demand for lumber, creating "serious economic conditions." Concern is growing over "the continued high level of Canadian lumber imports and its effect on the long-term health of the U.S. industry." ■

NONWOVENS

Colgate purchases P&G's Boundary line

Colgate-Palmolive Co. said its Kendall unit bought the Boundary line of disposable surgical drapes and gowns from Procter & Gamble Co. for an undisclosed amount.

Kendall will produce and market the Boundary line in addition to its own Curity line of surgical drapes and operating room gowns. The acquisition will include production equipment and other assets in Del Rio, Texas, and Acuna, Mexico, as well as patents and trademarks. The sale was effective Apr. 1. ■

U.S. pulp/paper demand expected to show

But some worry at API annual meeting over high inventories in certain grade segments and impact of strong dollar on U.S. exports and imports

P&P STAFF REPORT

■ Continued domestic economic growth, which is averaging close to 4%, should boost U.S. paper and paperboard production in 1985, according to most speakers at American Paper Institute's annual Paper Week meeting Mar. 11-13 at the Waldorf-Astoria Hotel, New York, N.Y. But higher-than-normal inventory levels in many grade segments, which were built up in the second half of last year, plus flagging U.S. exports and a rising tide of imports caused by the strong dollar were frequently mentioned sources of concern.

API president Louis F. Laun noted that paper and paperboard production for the first two months of 1985 was at a rate of 68 million tpy, close to the 68.7 million tons produced for all of 1984. "As the new year began, the heat of inventory demand was cooling, and consumers began to reassess their future needs." He said that the industry's performance was "in line with the trend in business activity" and noted that the economy is "moving into a maturing phase."

Consumption of paper in 1985 is expected to rise modestly, in line with the projected growth in real GNP of 3.7%, compared with 6.8% last year, Laun said. Packaging grades, however, could suffer from adverse trade trends caused by the strong dollar.

Imports of paper and paperboard in 1984 amounted to a record 10.4 million tons, up 23.5% from 1983, while exports fell 4.5%. In the case of woodpulp, U.S. imports rose 9.7%, while exports slipped 1.4%. In all, the U.S. industry's trade deficit for paper and allied products, including wastepaper and other fibers, amounted to $2.9 billion in 1984, according to Laun.

TABLE 1: **U.S. uncoated free-sheet paper shipments.**

Grade	1984 (000 tons)	1984 vs 1983 (% change)	Last half 1984 vs last half 1983 (% change)
Bond	2,046	+1.8	+1.8
Forms bond	1,898	+8.7	+3.3
Offset	2,319	+7.2	+3.6
All other	2,885	+1.4	−1.9
Total	**9,148**	**+4.3**	**+1.4**
U.S. coated paper shipments			
Groundwood	3,668	+9.5	n.a.
Free sheet	2,558	+9.0	n.a.
Total	**6,226**	**+9.3**	**+3.4**
New U.S. printing/writing paper supply (U.S. shipments + imports − exports)			
Uncoated free	9,542	+6.8	+2.7
Coated paper	6,569	+13.7	+6.5

Source: American Paper Institute.

WHITE PAPER OUTLOOK. Growth in U.S. printing and writing paper consumption this year should outstrip overall economic activity by a slight margin, API vice president James L. Hutchison told Printing-Writing Paper Div. members.

Hutchison reminded members that his year-earlier predictions for 1984 growth in U.S. shipments of coated paper and uncoated free sheet proved to be close to the mark, but a little on the low side. Coated paper shipments actually rose 9% and uncoated free-sheet shipments, 4.3%, compared with predictions of 8% and 4%.

"However, the sharp inroads of tonnage from overseas sources and the resultant substantial increases in end-user inventories early in the year were not expected," he added.

As the year went on and imports reached record levels, customer psychology shifted from one of stock accumulation to one of inventory liquidation. That, plus the fact that early 1984 represented a recovery period from recession levels, slowed down the growth rate of U.S. shipments. Comparing the second half of 1984 with the same period in 1983, the uptick in U.S. shipments fell to just 3.4% for coated paper and 1.4% for uncoated free-sheet (Table 1).

Growth was also unevenly spread within the printing/writing group. In uncoated free sheet, Hutchison estimates that U.S. forms bond shipments were up 8.7% last year and offset printing papers, 7%. Bond and writing grades, however, rose just 1.7%, as they had begun their recovery before the rest of the industry.

Coated paper shipment growth was more evenly distributed, with coated groundwood up 9.2% and coated free sheet up 9.5%.

Looking ahead, Hutchison uses a GNP increase of 3.7% this year and 2.7% next year as basic assumptions. Using that growth rate in 1985 and the continuation of historic ratios of consumption to GNP, he sees coated pa-

even further growth

per consumption up 5.5% this year and uncoated free sheet up 4.6%.

Helping U.S. shipments will be the likelihood that imports won't match last year's record levels. On the other hand, the inventory runup of early 1984 won't be repeated, which will retard shipment increases somewhat. Therefore, Hutchison expects to see U.S. printing and writing shipments up 2% to 4% this year.

As evidence of the present downtrend in U.S. imports, Hutchison noted that uncoated free-sheet imports hit a peak of 36,000 tons for the month in March 1984 and were down to just 7,100 tons in January 1985.

A worrisome sign for operating rates in the coated groundwood area was indicated by the recent operating performance of mills. Whereas API's most recent capacity survey would indicate coated groundwood capacity rising 1.2% this year, Hutchison noted that actual capacity increases could total 4% if early 1985 production levels are maintained. This phenomenon is similar to trends that earlier forced API to boost its 1984 coated paper capacity estimate by 320,000 tons from projections made before 1984 began.

SURGE IN NEWSPRINT DEMAND. Hutchison focused special attention on U.S. newsprint consumption in his remarks addressed to the Newsprint Div., noting that 1984 usage was up 8% over the previous year and 13% over 1982. Powering this increase particularly was a 17% jump in 1984 demand by end-users other than daily newspapers, in contrast with a 5% jump by dailies.

In the two-year 1982-to-1984 comparison, consumption due to other uses shot up 31% to 3.1 million metric tons, while daily newspaper use was up 8% at 8.3 million tons. The daily newspaper performance wasn't a bad one, however, contrasting as it did with average growth of just 1.5%/year in 1972 to 1982.

U.S. and Canadian shipments to different regions rose unevenly. Shipments to the U.S. South were up a "whopping" 12.8% in 1984. By contrast, shipments to the West rose 7.5% and to the North, 7.7%.

Canadian mills made some gains in 1984, pushing their shipments to the U.S. South up by 18%, while U.S. shipments to that region rose just 10.5%. But perhaps the most noteworthy change in shipment patterns occurred in the overseas import category, with shipments up from 59,100 tons in 1983 to 193,000 tons in 1984.

DOLLAR TO REMAIN STRONG. U.S. economic performance should remain healthy this year, outshining much of the industrialized world, delegates to the annual meeting of API's Printing-Writing Div. were told. Unfortunately for the U.S. pulp and paper industry, delegates also heard that the dollar will remain strong through this year.

Thomas R. Robinson, manager of international economics for Merrill Lynch Economics, predicted that U.S. real GNP will rise by about 4% this year, compared with earlier consensus estimates of closer to 3.5%. By contrast, Europe will be expanding at a 2% to 3% clip, with only Japan growing at the faster pace of 4.5%. "That makes the U.S. look like a good performer, particularly when our growth, as Japan's, should be accompanied by employment and productivity growth," Robinson said.

API's Paper Week luncheon speaker was J. Peter Grace (center), who is chairman and CEO of W.R. Grace & Co. and chairman of the President's Private Sector Survey on Cost Control (popularly known as the Grace Commission). He is flanked by Albert F. Duval, API chairman and chairman and CEO of Hammermill Paper Co. (left), and Louis F. Laun, API president.

API Pulp, Materials & Technology Group heard from (left to right) its vice president, Ronald J. Slinn; David Clark, executive director, European Paper Institute; and Bo Wergens, president, Swedish Pulp & Paper Assn.

Robinson also noted that "the U.S. has had a better balance between consumption and capital spending than any other nation, including Japan. That should continue this year as well."

The economist expects the U.S. inflation picture to get even better than the year-over-year 1984 performance. U.S. consumer prices rose just 1.8% in the last quarter, only half the year-over-year increase for 1984. And while U.S. inflation rates fell in late 1984, inflation was heating up abroad as the year ended.

The key issue seemed to be the strength of the dollar. Robinson pointed out that the trade-weighted value of U.S. currency is 90% higher than its July 1980 trough and 60% above where it was in 1973, when it was cut loose to float.

Robinson expects to see the dollar peak this year not far above DM3.50, averaging in the fourth quarter "no lower than about DM3.15 and ¥250." He added that "we have another hard year ahead for American exporters and businesses that compete with foreign producers."

Looking a little further down the road, Michael Galsworthy of U.K.-based Hawkins, Wright Associates forecasts average U.S. GNP growth rates of 2.7%/year for the 1984-1989 period, compared with actual increases in 1979-1984 of just 2.1%. By contrast, he believes the 13 countries of western Europe will see economic growth remain unchanged in the forecast period from previous levels, at 1.1%/year. And Galsworthy, like Robinson, believes the dollar will remain strong through 1985.

OVEREXPANSION IN EUROPE. Western Europe's pulp and paper industry can look forward to another year of respectable growth in 1985 if exports continue to soak up a large percentage of the Continent's output. On the other hand, the current capacity expansion boom in Europe could make this solid performance hard to sustain.

Particularly alarming was the estimate by Galsworthy that western Europe could have 4 million metric tons of printing and writing paper output available for export in 1988—nearly double the 2.2 million tons shipped outside the region in 1984.

Galsworthy's forecast assumes that apparent consumption of printing and writing papers in the 13 western European countries will be virtually stagnant between 1984 and 1988, edging down from 13.6 million tons last year to 13.0 million tons at the end of the forecast period. At the same time, he sees western Europe adding 1.7 million tons of capacity in that period, raising its capacity from 118% of apparent consumption in 1984 to 137% in 1988.

European Paper Institute executive director David A. Clark told the Pulp Materials & Technology Group that the "graphic grades" of paper—newsprint, uncoated groundwood, coated paper, and uncoated free sheet—will get 2.4 million tons of new capacity in Europe by 1987 (Table 2).

"This increase is equivalent to almost 11% of the exceptionally high level of European production in 1984, or five years of normal growth," Clark pointed out. (Galsworthy told his audience, along the same lines, that 1984 levels may not be sustainable and that some of that production probably went into inventory accumulation.)

Also sounding concerned, Clark noted that "for this increased capacity to be absorbed in a reasonable period of time without major market disruptions will require an exceptionally high and sustained growth in demand, both within Europe and for exports."

WILL EUROPE'S EXPORT BOOM LAST? Looking at 1985, Clark expressed cautious optimism. "As so often is the case in Europe, the answer seems to lie in the U.S., for both the economy as a whole and the paper industry in particular," he said. Within Europe itself, he pointed out, there is confidence that advertising and printing activity will remain strong at least through the first half of the year, buttressing uncoated groundwood and coated papers. But, he added, "there is less confidence about uncoated wood-free papers and certain packaging grades."

Assuming a continuation of present economic conditions, Clark believes "an increase of about 4% in 1985 [similar to the rate achieved in 1983] is certainly feasible for real demand for paper and board in Europe, at least in the first half."

This would be a dropoff from the sharp increases in production recorded last year, however. "The growth in paper and board production, especially in the graphic grades, can be described as spectacular," Clark noted. Among the growth rates for 1984: total paper and board production, 10%; newsprint, 17%; printing and writing grades, almost 13%, including coated paper, up more than 20% (although uncoated free sheet was up by less than 6%); supercalendered uncoated groundwood, more than 11%; and nongraphic grades, 6%.

Pushing output up was the pace of exports, particularly to the U.S. For the second year in a row, European exports to the U.S. doubled, reaching "well over a million tons in 1984" (Figure 1).

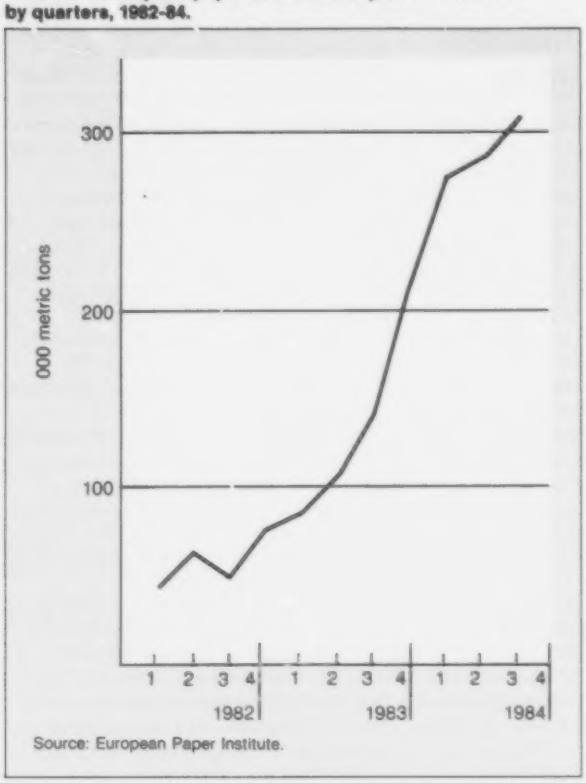
Galsworthy estimates western European printing and writing paper exports to North America in 1984 at 997,000 metric tons, constituting 46% of total European exports to points outside of the region. At this level,

TABLE 2: **European paper industry capacity increases and major projects, 1984-87.**

Grade	Number of projects	Increase (decrease) (000 metric tons)		Percent of 1984 production	Average annual growth in European demand (%)
Newsprint	6	960	610	10.1	1.0
	(4)	(350)			
Uncoated mechanical	6	425	140	2.9	1.0
	(3)	(285)			
Uncoated wood-free	10		565	10.5	2.5
Coated	12		1,088	17.8	3.5
Total	**34**		**2,403**	**10.8**	**2.0**

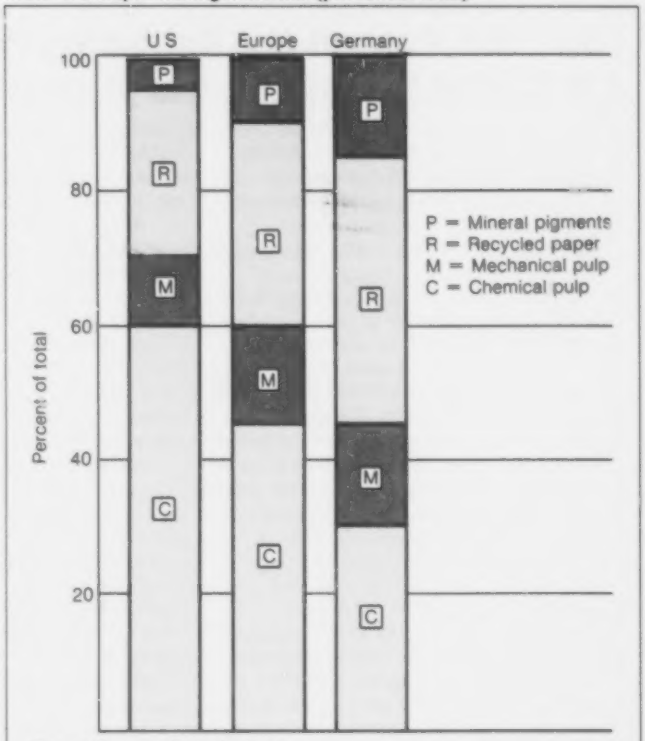
Source: European Paper Institute.

FIGURE 1: **European paper and board exports to the U.S. by quarters, 1982-84.**



Source: European Paper Institute.

FIGURE 2: **Papermaking materials (percent of total).**



Source: European Paper Institute.

North America is more than three times as important as the No. 2 destination, eastern Europe, with 293,000 tons of shipments from that region.

Western Europe has done very well in shipments to regions outside North America, of course. One reason for that success was shown by Galsworthy when he offered estimates on comparative transport costs for major supply regions shipping to major consuming areas. By his estimate, printing and writing papers shipped from Finland to the U.S. East Coast would cost $75/metric ton to ship, going in 500- to 1,000-ton lots in containers. A Rotterdam-U.S. East voyage would cost $65/ton. This would not be prohibitive for European mills, which already enjoy cost advantages over North American mills, due to the high value of the dollar.

But the comparison is even clearer with reference to the U.S. West Coast and Tokyo. Bound for the West Coast, Galsworthy estimates costs at $110/ton for shipments from Finland, $110 to $125 for shipments coming by rail from the Midwest or East Coast, and just $100 from Rotterdam. Shipments moving from Finland to Tokyo would cost only $90/ton, $15 lower than the same freight going from the U.S. West Coast to Tokyo.

ROUGH TIMES AHEAD FOR MARKET PULP? Assuming that Clark's projections about European and U.S. economic and paper industry activity are correct, market pulp producers are in for a rough period in the years ahead. He notes that three of the four new or converted uncoated free-sheet machines starting up in Europe this year will be integrated with pulp production. Furthermore, some coated groundwood business has probably gone to coated free sheet and will return to groundwood when capacity becomes available.

Other factors include the growth of thermomechanical and chemi-thermomechanical pulps (Clark estimates 400,000 metric tons of CTMP will be sold in Europe this year) and the increasing use of mineral fillers in uncoated free sheet. "Ten years ago, the average level of filler loading was 10% to 15%, with 20% as the practical maximum," Clark noted. "Today the average level of filler loading is above 20%, with 30% as the practical maximum" (Figure 2).

Clark also noted that "the growth of alkaline papermaking—which enables higher loading, especially of cheap locally available calcium carbonate, without loss of strength—has contributed to this development." He estimates that in 1984, 38% of uncoated free sheet made in Europe and 60% of coated free sheet was made under alkaline conditions.

And finally, Clark reminded the API audience that while the dependence on market pulp is dropping in Europe, world market pulp capacity is rising at a rapid pace.

SWEDEN AND THE EEC. Fears that Sweden would integrate forward into paper production and sharply cut back market pulp shipments to European papermakers have not been realized, according to Bo Wergens, president of the Swedish Pulp & Paper Assn.

Because of such concerns, tariffs were not removed on Swedish exports into the EEC until Jan. 1, 1984, after an 11-year period, compared with a five-year period for removal of tariffs on most other industrial goods. The extra time was designed to give the European paper industry time to restructure and become more economically competitive, he said.

But the pace of forward integration in Sweden has

PULP WHODUNIT

In "The Case of the Confusing Pulp Market" U.S. pulp industry is the principal victim

In "The Case of the Confusing Pulp Market," American Paper Institute vice president Ronald J. Slinn described the circumstances leading up to the current depressed state of the pulp market, identified the principal victim, and revealed the weapon. And like any good "pulp" magazine mystery writer, he named the villains of the story—or at least those who benefited most from the victim's injury.

First, he described some of the events leading up to the "crime" at API's Pulp, Materials & Technology Group meeting on Mar. 11. One such event was the nine-week British Columbian labor dispute that began in February 1984 and resulted in the loss of 750,000 metric tons of potential production of chemical paper-grade market pulp.

Although this loss represented only slightly more than 3% of world total potential production in 1984, pulp consumers began to build purchased pulp inventories. While timely world statistics are not available, API data show that U.S. consumers had built their pulp inventories to a record high of 621,000 tons at the end of April 1984—which is equivalent to 40 days of recent consumption, in contrast to a more normal level of 30 days.

On the other side of the inventory coin, North American and Nordic (Norscan) market pulp inventories dropped to 917,000 metric tons at the end of March 1984, their lowest level in 42 months. This represented 21 days of supply at rates of deliveries at that time, in contrast to a more normal 25 days of supply.

With the resolution of the British Columbian labor problem, relieved pulp consumers began to use up their purchased pulp inventories. In the case of U.S. consumers, inventories by the end of January were down to 427,000 metric tons, which represented 32 days of consumption—close to a normal level.

Circumstantial evidence. Meanwhile, producer inventories in all major producing countries have been growing at a rapid rate. U.S. producer inventories, for example, went through 500,000 metric tons for the first time ever at the end of November 1984. They then reached almost 650,000 metric tons at the end of February, representing 50 days of supply at the rate of U.S. shipments over the preceding three months. Total Norscan producer inventories by the end of February reached almost 1.9 million metric tons.

Despite the slowing of the U.S. economy in the third quarter of 1984, U.S. consumption of chemical paper-grade market pulp in 1984 reached a new all-time high of 5.3 million metric tons—up almost 10% over 1983. This was considerably more than the 7.6% increase in U.S. printing/writing paper production. The reason for the faster growth in market pulp consumption probably reflects fluff pulp, which has been showing rapid growth in recent years and is included in the statistics for paper-grade pulp, Slinn noted.

API estimates that annual U.S. consumption of diapers alone has reached the 16-billion-unit level and is growing at an annual rate of 7%. If each diaper contains 46 g of fluffing pulp, total U.S. diaper demand for pulp could be around 800,000 metric tons. Total U.S. demand for all fluff pulp applications would therefore be very close to 1 million metric tons, about half of which is met through market purchases.

More clues. "While the outlook for diaper-derived demand for fluffing pulp may be affected by the projected substitution of superabsorbent polymers, we are nevertheless faced with the realization that a large portion of the recent growth in U.S. chemical paper-grade market pulp demand, averaging 6.1% annually since 1975, has probably been in fluffing grades," Slinn said. "Consequently, the demand for truly paper-grade grades of chemical pulp may well have been growing at a quite modest rate."

Further support for a slower-than-apparent rate of U.S. growth in truly paper-grade grades of chemical pulp is the additional evidence of increased use of wastepaper in the tissue sector.

Another circumstance leading up to the current confused pulp market has been growth in world supply. Between 1983 and 1986, world capacity of chemical paper-grade market pulp is expected to expand by 1.8 million metric tons, or at an average annual rate of 2.1%. This capacity is being added in Austria, Brazil, Chile, Portugal, Czechoslovakia, South Africa, Finland, and Guatemala. But by far the largest portion of it—40%, or more than 700,000 metric tons—will be added in the U.S. "In 1986, U.S. capacity will exceed the combined Nordic total for the first time, having grown at an average annual rate of 4.2% since 1983," the API executive said.

Victim: U.S. producers. Although U.S. producers benefited from the short-lived opportunity to fill the supply gap created by the B.C. labor dispute, they are probably the major victims of the current market pulp downturn, according to Slinn.

For all of 1984, U.S. producers increased their share of world market pulp shipments by half a percentage point when deliveries to all markets from the major producing countries grew only 1% from 1983. "But U.S. producers suffered quite a blow in their domestic market, falling well below the 50% share of market pulp deliveries to the U.S. that they enjoyed in 1983 and 1982."

Canadian mills might also be included among the "wounded parties," except for their major increase in hardwood shipments to the U.S. market. Shipments of bleached hardwood sulfate market pulp to the U.S. have grown from slightly more than 900,000 metric tons in 1978 to 1.4 million metric tons in 1984, accounting for more than 27% of total chemical paper-grade market pulp deliveries in the U.S. last year.

Weapon: the strong dollar. U.S. producers supplied more than 80% of deliveries of bleached hardwood kraft market pulp in 1978 and 1979, and the Canadian producers, about 15%. In 1984, the U.S. producers' share of this market dropped to almost 60%, while the Canadian share rose to 26%. Brazil also has been capturing more of the U.S. hardwood pulp market, its share rising from 1% in 1978 to 10% in 1984.

More than any other factor, the damage inflicted on U.S. producers has been caused by "the unrelenting strength of the U.S. dollar," according to Slinn. He noted, however, that some might say the wound was self-inflicted because of the large U.S. industry capacity buildup.

Who did it? Slinn said that "some of the blame for the current confusion in world pulp markets could perhaps justifiably be laid at the door of the European Community's antitrust department whose recent requirement on the currency to be quoted by intensely competitive pulp producers may not necessarily be in the best interests of European consumers."

The producers who have benefited the most are those whose own currency has experienced the largest drop in value in relation to the dollar, thereby increasing their comparative cost advantage. In the past year, the list is headed by Brazil, whose currency has declined more than 65%; followed by Chile, almost 50%; South Africa, 41%; New Zealand, 34%; Finland, almost 20%; and Sweden, almost 18%. Even Canada's dollar has benefited to the extent of almost 9%.

Victim's condition. The wound inflicted on U.S. industry has not been fatal, but the victim is still in serious condition. "The prognosis for the remainder of this year is guarded, although the patient is expected to respond to some very effective medications. These include:

- Continued economic growth, both in the U.S. and overseas, will generate increased fiber demand, particularly if consumers rebuild their inventories.
- People's Rep. of China may make large purchases this year if they follow their two-year buying cycle. Last year China only purchased 300,000 tons of market pulp from Norscan producers after buying 600,000 tons in 1983.
- Comparatively lower factor costs for energy and labor have been helping U.S. producers survive.
- Plans announced for new U.S. paper capacity include some integration with existing market pulp production facilities. This will result in a decline in U.S. chemical paper-grade market pulp capacity beginning in 1986. ■

not been that rapid, according to Wergens. "The Swedish market share of EEC paper consumption is around 10% today, about the same level as a decade ago." And the growing exports of shorter fiber pulps to Europe from new supplying regions has diminished concern among EEC papermakers that they will be cut off from their pulp supplies.

JAPANESE MARKET—STILL NOT OPEN. U.S. Under Secretary of International Trade, Lionel H. Olmer, indicated in an address during API Paper Week that the U.S. government is "worried" about Japan's policies toward U.S. imports, especially for such industries as forest products.

"The market in Japan is simply not open to your products," he said. "We have a serious problem," he noted, indicating that the trade deficit in 1984 reached $124 billion and is conservatively expected to rise to about $150 billion this year.

Trade talks with Japan on four industries were begun last month, but the forest products negotiations were abruptly recessed when the Japanese refused to discuss tariff reductions, Olmer said.

The U.S. Under Secretary of Agriculture—who was heading the talks at the time—told Japanese negotiators that unless there was an attempt to discuss "common concerns," there would not be further discussions on forest products, and no further meetings have been set, he noted.

Olmer said that in its trade relations with Japan, the U.S. has become a developing nation, supplying raw materials and getting finished goods. Yet many industries—including forest products, which are at a competitive advantage to their Japanese counterparts—are not allowed to compete in Japan because of that country's restrictive trade policies.

In a statement released a few days earlier by the American Paper Institute, API's vice president, international, Irene W. Meister, noted that the U.S. forest products industry has a number of competitive advantages to the Japanese industry—including cheap raw materials and energy, skilled labor and progressive management, and the latest technology—and still the import share of consumption in the U.S. is so much greater than the import share in Japan.

"What forces are preventing import penetration there?" asked Dr. Meister. "Tariffs in Japan are obviously a first clear-cut barrier." In addition, other factors that should be taken into account include Japan's protective policies toward its own "sick" industries, which are not entirely bedridden, she noted.

"The paper industry welcomes the Market Oriented Sector Selective approach—the so-called MOSS. We understand that, as agreed between President Reagan and Prime Minister Nakasone, this approach is designed to identify and remove all nonmarket impediments to greater access to the Japanese market.

"If this process is successful," she continued, "it will go a long way toward an improvement in strained trade relations between our two countries."

RECORD WASTEPAPER USE. U.S. utilization and collection of wastepaper in 1984 set all-time records. In addition, exports shot up 25% from the previous year, pointed out J. Rodney Edwards, vice president of API's Paperboard Group.

"This is an outstanding achievement by the collection system in the U.S.," Edwards said, "demonstrating how effective supply and demand are balanced in a free market system."

Americans recovered 20.6 million tons, consumed 17.4 million tons, and exported 3.2 million tons of wastepaper in 1984, he noted. Collection of old newspapers is nearly 4 million tpy, or a 29% rate of recovery (collections to new supply of paperboard), compared with 27% for all paper stock (Table 3).

In 1984, collections of old news increased 400,000 tons from the previous year, reflecting strong demand from deinked newsprint mills, recycled paperboard mills, and export customers, Edwards said.

Collections of old corrugated containers rose 9.4 million tons—nearly 1 million tons ahead of last year—reflecting the increasing commitment of major chain stores to recycle their used cardboard boxes and the important role individual small collectors play in hauling this material to dealers' warehouses.

Demand for mixed paper also rose in 1984, with collections up by over 300,000 tons, despite the increasing amount of contaminants in this grade in the form of adhesives, coatings, and laminations.

The high level of activity at converting plants producing high-grade wastepaper clippings caused an increase in collections in this category. Increasing recycling of computer printout was also a factor.

Wastepaper was one sector of the paper industry which was not affected in the export market by the strong dollar, and further increases in exports are expected in 1985. "Exports in 1984 represented over 15% of all recyclable paper collected in the U.S.," said Edwards. "Overseas customers, planning to increase capacity based on wastepaper, look to the U.S. for additional supplies." ■

TABLE 3: **1983 and 1984 wastepaper data (short tons).**

	1984			1983		
	Consumption at U.S. paper and paperboard mills*	Exports	Total collected	Consumption at U.S. paper and paperboard mills*	Exports	Total collected
News	3,315,657	539,431	3,855,088	2,992,000	461,214	3,453,214
Corrugated	8,136,372	1,260,845	9,397,217	7,443,001	993,436	8,436,437
Mixed	2,071,863	685,478	2,957,341	1,907,999	704,783	2,612,782
High grades	3,873,595	549,687	4,423,282	3,734,625	414,279	4,148,904
Other	50,249		50,249	44,375		44,375
Total	**17,477,736**	**3,235,441**	**20,683,177**	**16,122,000**	**2,573,712**	**18,695,712**

Source: American Paper Institute.
*Includes consumption at plants making molded pulp and insulation products.